Guinness Ghana 9M2022/23 Results

Current rating **UNDER REVIEW**

Ghana | 28 April 2023

High cost of sales erodes top-line gains

Guinness Ghana Breweries Plc. ("GGBL") released its unaudited 9M2022/23 financial results today and, in line with our expectations, posted a loss of GHS 41.3mn. From our analysis, while GGBL reported strong double-digit growth in revenue, higher cost of sales eroded the gains made in top-line growth. The increase in cost of sales was driven by higher inflationary pressures on raw and packaging materials, utilities costs, distribution-related expenses and the significant depreciation of the local currency against major trading currencies.

Performance: Losses linger on high input cost

- GGBL's earnings decreased from a profit of GHS 24.4mn in 9M2021/22 to a loss of GHS 41.3mn in 9M2022/23
- The company's losses were largely due to the eroding effect of its high cost of sales, which we attribute to the challenging economic environment, characterized by a significant depreciation of the Cedi, soaring inflationary pressures, rising utility costs and distribution-related expenses
- As a result, cost of sales escalated by 51.6% y/y to GHS 1.1bn, outpacing revenue growth by 23.0pps
- Consequently, gross margin decreased by 13.1pps y/y to 13.6%, despite the 28.6% y/y growth in revenue to GHS 1.2bn
- However, operating expense, was well-controlled as it slumped by 19.8% y/y to GHS 165.7mn in 9M2022/23
- In spite of the decrease in OPEX, operating margin fell by 5.4pps to 0.3% in 9M2022/23 due to the 34.4% y/y decrease in gross profit
- Finance cost more than tripled (+237.8% y/y) to GHS 52.0mn, owing to an 87.7% y/y increase in overdraft and rising interest rates
- Resultantly, earnings margin slumped by 5.8pps y/y, from a net profit margin of 2.5% in 9M2021/22 to a net loss margin of -3.3% in 9M2022/23

Outlook: Inflationary pressures to keep jacking up cost of sales

- In the coming quarters, we remain optimistic that GGBL will churn out decent double-digit revenue growth on the back of the company's large and diverse product portfolio, productivity-enhancing investments in a new brewhouse, and brand activation campaigns
- On the cost front, we expect GGBL's cost of sales to continue rising as the upside risks to the prevailing inflationary pressures still linger
- As a result, we foresee further margin deterioration in the coming quarters
- With GGBL working to increase its Local Raw Materials ("LRM") usage from 61.0% to 70.0% in the next two years, we anticipate that this will reduce the company's reliance on imported cereals, lessening the impact of the Cedi's depreciation on input costs in the subsequent quarters
- On the OPEX front, we believe that as long as management continues to execute its cost-saving strategies, such as postponing expenditures that do not critically and directly contribute to top-line growth in the near term, operating expenses will stay lowered in the coming quarters

Valuation: Under review

- We are in the process of re-initiating coverage on GGBL and have therefore placed our recommendation under review
- GGBL is trading at a P/B of 1.5x and EV/SALES of 0.7x

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